1954

ANNUAL REPORT

THE BORDEN COMPANY

Borden's instant coffee complements these parfaits made with Lady Borden vanilla ice cream, cranberry puree, and a topping of whipped heavy cream.

Uncooked frosting for this grapefruit cake is made with two 6-ounce packages of Borden's cream cheese.

Biscuits plain, for shortcake, or as a base for creamed dishes; waffles or cheese roll-ups — all are easily made from Borden's Bake'n Eat Biscuits.

The Borden Company

Annual Report for 1954

Board of Directors

Harold W. Comfort, *Executive Vice President*
Charles A. Eckburg, *Vice President*
L. Manuel Hendler, *Hendler Creamery Co.*
Robcliff V. Jones, *New York*
Charles F. Kieser, *Vice President*
Lester Le Feber, *Milwaukee*
Madison H. Lewis, *New York*
Theodore G. Montague, *President*
Marcus M. Munsill, *Spencer Trask & Co.*
Thomas I. Parkinson, *Counsellor-at-Law*
Henning W. Prentis, Jr., *Chairman of Board, Armstrong Cork Company*
Harry A. Ross, *Vice President*

Officers

Theodore G. Montague, *President*
Harold W. Comfort, *Executive Vice President*
Cecil I. Crouse, *Vice President*
Charles A. Eckburg, *Vice President*
Willis H. Gurley, *Vice President*
Charles F. Kieser, *Vice President*
Harry A. Ross, *Vice President*
Roy D. Wooster, *Vice President*
Everett L. Noetzel, *Treasurer*
Douglas T. Orton, *Secretary*
Joseph O. Eastlack, *Assistant Vice President*
Stuart Peabody, *Assistant Vice President*
Theodore O. Hofman, *General Controller*
Harry L. Camp, *Assistant Treasurer*
Louis Csenge, *Assistant Secretary*
Kenneth J. Neagle, *Assistant Secretary*

Corporate Data

EXECUTIVE OFFICES
350 Madison Avenue, New York 17, N. Y.

REGISTERED OFFICE
117 Main Street, Flemington, N. J.

GENERAL COUNSEL
Milbank, Tweed, Hope & Hadley
15 Broad Street, New York 5, N. Y.

AUDITORS
Haskins & Sells
67 Broad Street, New York 4, N. Y.

REGISTRAR
Bankers Trust Company
16 Wall Street, New York 5, N. Y.

TRANSFER AND DIVIDEND DISBURSING AGENT
The Chase National Bank of the City of New York
11 Broad Street, New York 15, N. Y.

The President's Report

to the stockholders and employees

We have just completed the best year in the history of the Company. There were many reasons for the good showing: The national economy was in a healthy state, the food industry was expanding, and the Company was ready for the opportunities that were presented to it.

The country enjoyed its most prosperous peace-time year — a year second only to 1953, when it was engaged in the Korean conflict. It was able to cut back its military spending without serious effect on the economy. The predicted business recession did not occur. There was reduced activity in some industries, but it was local, frequently short-lived, and — while unfortunate — had but limited effect on the country as a whole.

President Theodore G. Montague

The food industry made progress in this generally favorable climate. Population growth, high employment and lower taxes also helped. As disposable income increased, the people spent a greater part of it on food products, and our Company shared with the industry in the increased sales volume.

The Government took the first steps necessary to re-establish the economy of the dairy industry on a sound basis. Both agricultural leaders and processors had long been concerned with growing surpluses of dairy products and recognized that, to check them, lower support prices would be necessary. Nevertheless, it required considerable political courage on the part of the Administration and the Congress to make effective the principle of flexible price supports.

Surpluses are still with us. But with population growth and continuing prosperity, the wise administration of flexible price supports should bring production and consumption more nearly into balance. New Government programs for disposal of excess stocks through school lunch programs and by export, and continued aggressive merchandising by the industry should help toward solving the problems.

The Company had planned — and was prepared — for favorable conditions. Through the reinvestment of substantial amounts of earnings over many years it had been strengthened and expanded. The acquisition of new and successful operating units, the modernization of plants and equipment, the development of a more integrated organization, and a steady improvement in efficiency all contributed to a better performance and better prospects for the future.

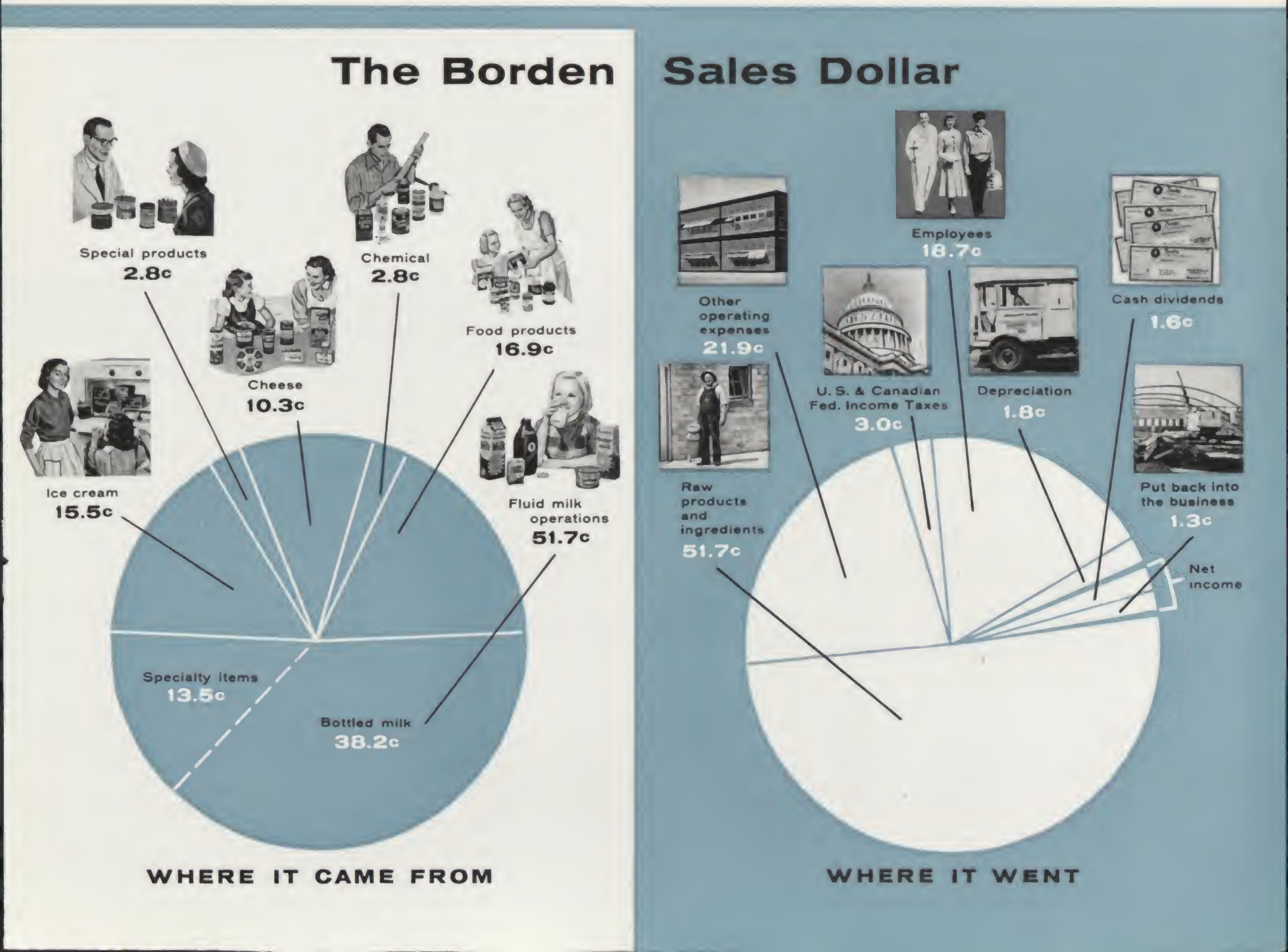
Prospects for the future are indeed bright. The country appears headed along a straight and prosperous road. The people are steadily improving their standards of living. We view the future of the Company, under such conditions, with optimism.

SALES The sales of the Company and its consolidated subsidiaries amounted to $776,838,791. We handled a greater volume of products than ever before, but our dollar sales were about 2% below the $792,381,721 of 1953, due to a generally lower price level.

PROFITS Our net income reached an all-time high. It was $22,724,336, about 12% more than our 1953 earnings of $20,264,156 and about 4% more than the $21,890,479 earned in 1949, the former record year. Per share earnings were $4.82; in 1953 they were $4.71. In that year, however, there was less stock outstanding. (There was a stock dividend in 1954.) Computed on a basis comparable with 1954, per share earnings in 1953 would be $4.28. Our earnings were about 2.9 cents per dollar of sales, an improvement over the 2.6 cents of 1953. Our average for the last 20 years is 2.9 cents.

Several factors were responsible for the higher income. The Excess Profits Tax expired Dec. 31, 1953. The volume of products sold increased. Declines in ingredient prices more than offset, in some cases, the reductions in selling prices and the higher costs of wages and other expenses. Introduction of new and better equipment and methods improved efficiency.

Our equity in the earnings of our unconsolidated foreign and domestic subsidiaries, which are largely self-financing, more than doubled. It was about $3,450,000, as compared with about $1,650,000 a year earlier. However, we received no dividends from these subsidiaries; in 1953, our dividends from these sources amounted to about $36,000, which was included in net income.



Raymond Powers, Food Products' Director of Quality Control, needs a stopwatch to time Gloria Louis as she mixes Instant Starlac. Miss Louis does the commercials on our daytime TV show, Way of the World.

TAXES U. S. and Canadian Federal income taxes amounted to $23,428,263. As a result of our higher income they increased $1,325,678 over 1953 taxes of $22,102,585, which included U. S. Excess Profits taxes.

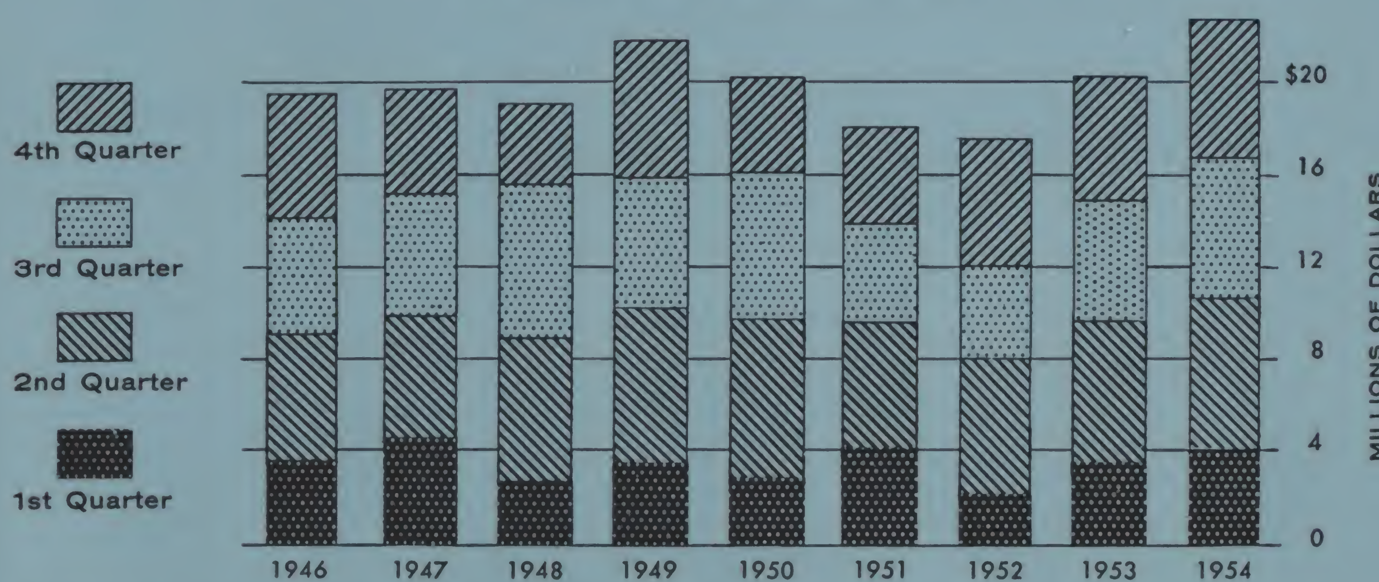
DIVIDENDS On Oct. 11, the Company paid a stock dividend of 10% to stockholders of record Sept. 10. As a result of this action, the first of its kind since 1931, 430,800 additional shares were issued to stockholders. The Board of Directors, in declaring the dividend, recognized the equity of the stockholders in earnings retained in the business over past years. These new shares participated in the final 1954 dividend of $1.00 per share — our 179th consecutive payment, which rounded out 56 years of an unbroken dividend record. Cash dividend payments during 1954 totalled $2.80 per share, the same as in each of the preceding four years. Stockholders received $12,439,939 in cash, in addition to the stock dividend, during the year. Payments in 1953 amounted to $12,034,800.

INVENTORIES For the second consecutive year our inventories declined. At the close of the year they were $53,501,698, down 21% from 1953. There were several reasons for the reduction. The price level was lower. Quantities of some products were smaller — as in the case of cheese, which was available from Government stocks, and coffee, where supplies were short. And we followed a policy of holding inventories to sound minimum levels during a time of price uncertainty.

We continued to use the last-in, first-out (LIFO) basis for valuing stocks of certain products, and therefore declines in the price level had a limited effect on our earnings. Had we not adopted this method some years ago our inventory values would have been $8,002,486 higher.

WORKING CAPITAL Current assets of $161,474,605 and current liabilities of $42,038,082, a ratio of 3.84 to 1, left a balance of $119,436,523 as working capital. This was $142,239 less than at the end of 1953.

Quarterly Earnings



Earnings for first three quarters are per books. Fourth quarter earnings reflect year-end adjustments and audit by independent public accountants.

Afton Harbour, routeman for our Maricopa Division in Tucson, Ariz., found flooded streets no obstacle to prompt delivery with a new version of curb service.

CAPITAL EXPENDITURES The Board of Directors authorized a capital expenditure budget of $13,971,000 for 1955. With an unexpended authorization of about $4,300,000 from prior years, about $18,300,000 will be available to modernize, replace or expand our plants and equipment. This is approximately $5,900,000 more than depreciation accruals will provide for these purposes in 1955. If actual expenditures exceed these accruals, the difference will be financed from retained earnings.

Current allocations are earmarked primarily for the purchase of new and improved equipment and machinery. Under present plans there will be little new building construction. However, late in 1955 it may become necessary to undertake some large building projects; if so, an increase in the budget will be required.

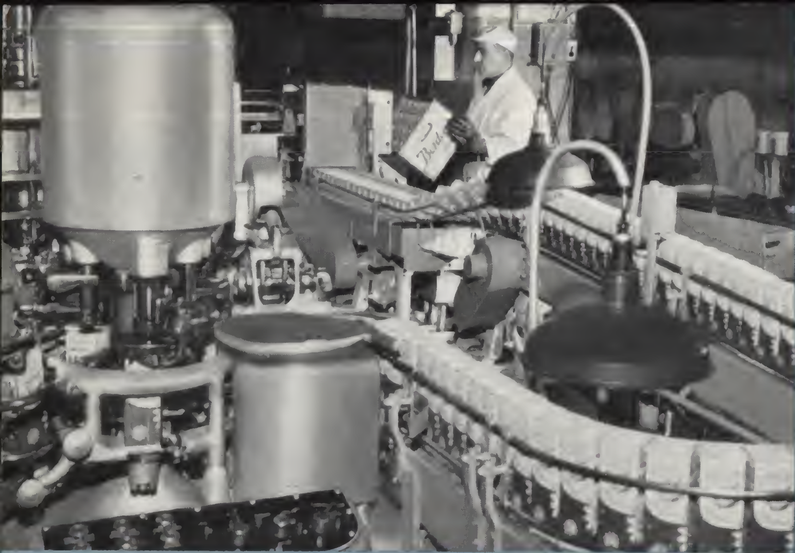
To supplement our capital expenditures program we shall continue to lease certain types of trucks and refrigerating equipment. In addition to what is already under lease we shall rent approximately $5,200,000 worth of such new equipment in 1955.

COMPANY OWNERSHIP There were 4,710,000 shares of stock outstanding on Dec. 31, as compared with 4,300,000 shares a year earlier. The increase resulted from the issuance of stock as a dividend. During the year the Company bought 71,471 shares and reissued 50,671 shares — 27,671 for the acquisition of new businesses, and 23,000 under the stock option plan. There were 49,430 stockholders at the close of the year, as compared with 50,605 a year earlier. The average shareholding was 95 shares; in 1953 it was 85 shares. No individual held as much as 1% of the total shares outstanding.

LITIGATION In addition to the usual litigation arising in the course of the Company's business during the year there were certain unusual matters that warrant specific mention.

The Federal Trade Commission began similar separate proceedings against eight major ice cream manufacturers, including our Company, alleging that each has engaged in unfair trade practices. We are denying these charges, as are the other companies. The Commission began hearings in 1954, and additional ones are scheduled during 1955.

Charges in a civil suit that the Company had violated anti-trust laws in Chicago were reviewed by the U. S. Supreme Court at the Government's request. These charges had been dismissed by the U. S. District Court. The Supreme Court affirmed the dismissal of charges of violation of the Sherman Act, and returned for fur-



Another step toward greater efficiency is this new packer, which automatically loads a case of milk (20 quarts) at a time. Speed is 330 cases an hour.

Secretary of Agriculture Ezra Taft Benson serves his daughter Beth some Borden's ice cream, which made a hit with 4-H Club members at National Camp Meeting.

ther consideration the charges of discriminatory practices.

On motion of the Department of Justice the U. S. District Court in Chicago dismissed an indictment against the Company and three of its local officials in which violations of the Sherman Act were charged.

ADVERTISING Our advertising and promotional campaigns were more extensive than in any previous year and will be further expanded in 1955.

The "All-Borden" campaign, promoting the entire line of Company products will be intensified in several ways.

Our magazine advertising will be supplemented by at least six pages in *The Reader's Digest*, which will accept advertising in 1955 for the first time.

Our TV advertising will be increased by thrice-weekly sponsorship of *Way of the World*, a new dramatic show telecast on weekdays from 10:30 to 10:45 a.m. E.S.T. over the NBC network. (Started Jan. 3, 1955.) Appealing primarily to women, the program will reach many of them just before they start their day's shopping. It will supplement *Justice*, our popular evening show, which has an all-family appeal and is telecast Thursday from 8:30 to 9:00 E.S.T. over the NBC network. In addition, we have arranged for exclusive use of Borden milk and ice cream products on *Ding Dong School*, an outstanding national TV program for children, and also for the use of the "Ding Dong School Approval" in our merchandising.

Advertising efforts will also be expanded in the other campaigns intended to promote individual products in both national and local media.

Elsie makes a friend

During a personal appearance in Florida, Elsie and calf Beauregard paid a visit to the home of Governor Leroy Collins. "Don't be shy," the Governor tells his daughter Darby, 6, as she meets Beauregard.

With Daddy to back her up, Darby summons her courage to smile bashfully at Elsie the Cow. Elsie doesn't seem to notice her own likeness in the daisy design on the Governor's lapel.

"Oh, Daddy, she is nice!" Darby exclaims, while her father pats Elsie affectionately. Chain and lock on Elsie's forehead show that she is a purebred Jersey.

"We're friends!" Reassured by their parents, Darby and Beauregard overcome shyness, become pals. The young calf, with an urge to frolic, is restrained by Elsie's Herdsman, Paul Davis.

canada

Our Canadian operations were affected somewhat by the slight contraction of business in Canada. Volume showed an over-all increase but dollar sales remained about the same because of the lowered prices of many products.

There was little change in total profits, or in the rate of profit — which remained at 1.4 cents per dollar of sales. However, profits would have dropped as a result of inventory write-downs except for an offsetting factor — the adoption of the declining balance method of depreciation for tax purposes, as now provided by the Canadian Federal tax laws.

Sales of fluid milk rose, both direct to homes and to wholesale accounts. Ice cream sales declined, largely because rainy weather and unseasonably low temperatures discouraged consumption in many markets. There were substantial increases in our exports of powdered milk. Unusual progress marked the sales of BORDEN'S instant coffee and STARLAC, our consumer-packaged nonfat dry milk. (The new INSTANT STARLAC will be introduced in Canada in 1955.)

The search for improved efficiency continued. In two areas, we combined plants to secure more economical operation. We completed motorization of our fleet at Toronto and the last horse-drawn vehicle at our Hamilton branch will be retired in 1955. Our only other fleets not completely motorized will then be those of Ottawa and Montreal.

While Canadian farm income declined, returns to dairy farmers remained relatively stable. Our payments for farm produce and other ingredients amounted to $23,579,028. Payments to employees were $9,581,145.

General business conditions continued to improve toward the end of the year. Unemployment was waning, and it seemed likely that Canada was resuming its normal growth rate, and that the improved conditions would benefit both our sales and profits.

It was Queenie's last day in harness, and friends all along her route came to say goodbye. Among those on hand when Routeman Thomas Vandemark drove by was Carol Villebrun, of Toronto, here presenting Queenie with an apple.

After 15 years of service, Queenie retired — the last horse in the Toronto stable of our Canadian company. Mr. Vandemark, Queenie's partner for six years, now drives one of the new delivery trucks. But Queenie will spend her last days munching tall grass on the farm of a retired Borden employee.

Queenie is becoming a symbol of days gone by. In Canada for years, horses were best on the icy hills. But with modern snow-removal equipment, horses, Queenie among them, are passing from the scene.

Elsie's children, son Beauregard and daughter Beulah, are featured in this mobile trailer unit, which is set up in the parking lots of super markets. Display is a part of Canadian merchandising program in stores.

special products

Over-all results of this Division showed a great improvement over 1953. There were substantial increases in both volume and dollar sales. The loss of the previous year was succeeded by a considerable contribution to our profits.

The Soy Processing Department, after several years of reverses, had a profitable year. We gained from the higher prices for beans and their end products, meal and oil. While it was still difficult to convert soy beans to oil and meal at a satisfactory return, because of the disparity in their prices, plant efficiency enabled us to do better than the industry average.

The Feed Supplement Department showed slightly better results than in 1953. The Government's disposal of surplus stocks of nonfat dry milk for feed, together with competition from dried whey and fermentation derivatives, created some problems. CMR, a new milk replacement for calf-feeding, was introduced.

The Prescription Products Department had an unsatisfactory year. Sales of BREMIL, our powdered infant food, had a substantial increase, but over-all volume rose only slightly. Costly difficulties were encountered in introducing a new product, and new competition challenged one of the best-selling items in the line. Fourth-quarter sales give hope for a better experience in 1955.

Jane Hsueh

SPEAKING THEIR LANGUAGE

Wherever we introduce *Gail Borden Signature Quality Milk,* consumers give it a quick and friendly reception. But nowhere has the enthusiasm matched that of San Francisco's Chinatown. Checking into a sudden sales upsurge we found the person responsible for it was a continent away.

In Brooklyn, N. Y., a young Chinese girl, Jane Hsueh, is a technical director in our Special Products Division plant which prepares the vitamin and mineral concentrate used to fortify *Gail Borden* milk. Born in California, while her prominent parents were on a visit from Shanghai, Jane did graduate work in chemistry and joined Borden's five years ago.

To Jane, promotion of *Gail Borden* appeared good for the nutrition of her people — and the Company as well. She translated a description of the new milk into Chinese. Its publication under her name — a famous one in the Chinese community because of her parents — has kept *Gail Borden* sales humming in Chinatown ever since.

chemical

Over-all tonnage and dollar sales of our chemical business increased from 1953. Profits were slightly lower. Conditions in the last half of the year were considerably better than in the first. Contributing to the improvement were several changes in operating and administrative procedures that promise even better results in 1955.

Most important change was the decentralization of responsibility for production, development and sales to the managers of each of the five product groups. Initial experience with this procedure indicates that it will stimulate further cost reduction and sales progress.

Increased output of formaldehyde helped our sales growth substantially. Production of this basic material was expanded by new facilities at our Bainbridge, N. Y., plant and full capacity operation of the formaldehyde departments of plants at Demopolis, Ala., and Springfield, Ore.

Despite a crippling strike that closed down the plywood industry for 14 weeks, sales of resin adhesives recovered to exceed those of the previous year. With building construction scheduled to continue at a brisk rate, outlook for the products supplying the wood industries is good.

The Polyco Department, formed after we acquired the business of American Polymer Company, continued to expand. Its growth was strengthened by the addition of new products for the paint industry. Further progress is expected as vinyls replace oils in the paint-base field. Polymerization facilities were added to our Bainbridge plant and, early in 1955, will be in operation in our Los Angeles County, Calif., plant.

The experience of our Durite plant at Philadelphia, Pa., was unsatisfactory. However, by improving our line of molding compounds, we have bettered our competitive position and, as a result, should obtain a larger portion of the market in the future.

New products introduced during the year included the following: Wet strength resins for the paper industry; new latex paint thickeners and stabilizers; improved seaming adhesives for tinless metal containers; an improved shell mold resin for the foundry industry; and ELMER'S CONTACT CEMENT, a water-resistant bonding adhesive. We also developed new and better packages for ELMER'S GLUE-ALL.

A GIRL'S BEST FRIEND . . .

The label describes *Elmer's Glue-All* as a "strong, all-purpose glue for wood, paper, cloth, etc." The "all-purpose" appears limited only by the ingenuity of our customers. *Elmer's Glue-All*, it seems, has been used to: Hold up the socks of girl cheerleaders; fasten shoe-lifts; make dripless candles; coat paper doilies (with water and vegetable dyes). And one woman reported that it worked perfectly as a hair-set!

food products

Heightened competition, unsettled prices and intensified product development adversely affected the results of this Division. Both tonnage and dollar sales were lower than the record high levels reached in 1953. Over-all profits declined.

By introducing Instant Starlac we strengthened our leadership in the nonfat dry milk field. Its development required extensive research and substantial outlays for new equipment. Its introduction required additional advertising expenditures and the withdrawal of stocks of old-type Starlac, a costly but necessary move. On the basis of consumer tests, we believe we have a product superior both to the original Starlac and to new competitive products.

High coffee prices early in the year gave new impetus to the already expanding market for the more economical instant coffees. However, competition increased also. Special inducements to encourage sales, plus intensive advertising and merchandising, made it increasingly difficult and costly for us to improve our business. Fluctuations in the prices of green coffee were an added problem.

Efforts with other domestic consumer products met with mixed results. Heavy milk production brought large supplies of evaporated milk into a market that had again shrunk because of decreased consumption; intense competition and unsettled prices affected our sales adversely. Condensed milk sales were somewhat higher. There was a decline in our mince meat sales as a result of heavy ordering by the trade late in 1953 in anticipation of a price increase. Sales of Instant Hot Chocolate rose.

As the leading U. S. exporter of dry whole milk, we faced the problems currently confronting all exporters — dollar shortages, import restrictions, competition from the reviving economies in soft currency areas. In addition, world milk production again rose, flooding markets with products from countries that are low-cost producers. We sold more than in 1952, but less than in 1953, when the threat of a shipping strike stimulated abnormally heavy buying.

Production facilities were changed to meet changing conditions abroad and at home. The Amersfoort plant of The Borden Company Holland, N.V., intended to protect our dry milk position in foreign markets, started operations. In the United States it was necessary to consolidate manufacturing of evaporated milk and other milk products into fewer, larger, more modern plants, located in areas of ample milk production and nearer to the population centers where our products are consumed. As the volume of principal plants increased, other plants were closed. These moves give promise of increased efficiency for the future.

cheese

Our cheese business was about the same as in 1953. Sales volume was off slightly, while dollar sales dropped more because of the lower prices that prevailed throughout the year. Profits were substantially better, largely because of changes in our distributing methods.

In some areas we began shipping direct to warehouses of large retail grocers, relying on distributors for service to smaller independent stores only. To further protect our competitive position it became necessary to reduce distributors' discounts. As a result, several distributors discontinued our line, and volume declined — temporarily, we hope — while they were being replaced. We believe our policies to be sound and expect that the Company will benefit from them in the future.

We continued to do a good business in BORDEN'S BAKE 'N EAT biscuits. A new container, developed after considerable research, will be in general use in 1955 and should give an added impetus to sales. Our biscuit plants at Atlanta, Ga., Dallas, Tex., and Los Angeles, Calif., were operated at near capacity. To serve the large Northeast area, and enjoy substantial savings in shipping charges, it may be necessary to supplement these plants with a fourth.

In 1955 we shall again promote factory-packaged natural cheese, both Cheddar and Swiss. Sales should be further aided by the new and more attractive packaging that is now being developed.

National cheese production was about the same as in 1953. The Government's holdings of cheese bought to support prices reached new high levels, but its purchases declined during the marketing year. The national per-person consumption of cheese rose from 7.4 pounds in 1953 to 7.6 pounds. The program to supply school lunches and relief agencies with cheese may have long-term effects on consumption habits that will benefit both the industry and the dairy farmers supplying it.

ice cream

Lowered consumption of ice cream and related frozen products prevented an anticipated increase in our unit sales. While volume in some months was higher than the preceding year's, these increases could not offset the declines in months of normally high consumption, when unseasonable weather prevailed over large areas of the country.

Consequently, our gallonage and profits were about the same as in 1953. Dollar sales, however, declined because selling prices averaged somewhat lower than in 1953.

Certain long-term trends in sales continued. There was a further shift from bulk ice cream to packaged-product sales, with half-gallon and gallon containers showing a marked gain. Lady Borden, our highest quality ice cream, accounted for a slightly larger percentage of total sales.

Several new and promising novelties were introduced on a regional basis. The New York Metropolitan area promoted a full line of novelties under the Elsie brand — cups, Frosticks, sandwiches, etc. This use of Elsie as a trademark should prove effective in merchandising products that appeal to children. Initial success of the new line was such that other Districts will introduce it in 1955.

The search for more efficient operating methods continued. Improved equipment was installed in many plants, and in all Districts we endeavored to streamline our distribution schedules to offset the rising costs of delivery.

We expanded our serving territory. By extending distribution to Phoenix we brought Borden ice cream to Arizona. Ten years after establishing the first Borden branch in Mississippi we rounded out our operations in that state by acquiring the McLeran Ice Cream Company of Tupelo and the Purity Milk Company of Meridian. Distribution was strengthened in Arkansas and several areas in the Middle West by the acquisition of combination milk and ice cream firms. *(See Fluid Milk Section)*.

WHAT'S YOUR PREFERENCE?

Vanilla, chocolate, and strawberry are the most popular ice cream flavors in the U. S., accounting for over 70% of the output. The remaining production is divided among 171 other flavors, some of which are available only on a local basis.

To satisfy consumers' preferences for variety, and at the same time benefit from the sales advantages, our ice cream operations have established committees to develop special flavors on the basis of taste, public acceptance, and seasonal appeal. Each flavor is given strong promotion.

Last year, the six special *Lady Borden* flavors were: Lorraine Cherry, Praline Pecan, Strawberry, Plantation Peach, Tropic Isle Pineapple, and Date Pecan.

The flavors for all but strawberry were developed in Borden laboratories. The combinations, however, maintain a tie with long-time favorites. Among national flavor preferences, cherry ranks 13th; pecan, 6th; peach, 7th; pineapple, 21st. Vanilla, chocolate, and strawberry? They're regularly available in *Lady Borden* ice cream.

fluid milk

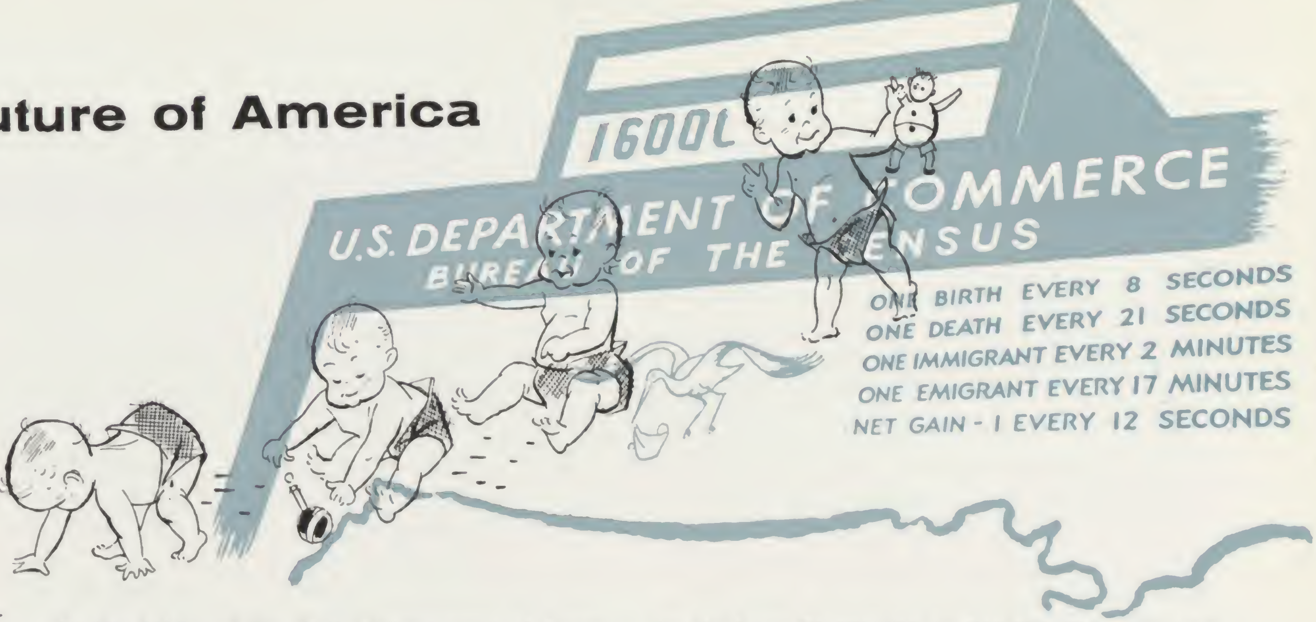
Sales volume of the items handled by our Fluid Milk operations was greater than in 1953, and the largest in our history. Dollar sales increased only slightly because prices that we received for our products were generally lower. Our profits improved because of a combination of circumstances: Better margins, the greater sales volume, and the acquisition of a number of new businesses.

Contributing to our sales growth was the energetic merchandising of specialty products. The sale of GAIL BORDEN SIGNATURE QUALITY MILK, a vitamin- and mineral-fortified product of finest quality, was extended to cover 51 areas and will be introduced in a score more in 1955. Cottage cheese sales rose again and the product will continue to receive special attention in the future. Buttermilk was stressed with excellent results. Similar promotion will be given to chocolate milk and chocolate drink in 1955. Fresh orange juice was introduced in the New York Metropolitan area as well as in several other markets.

We continued to improve our plants and equipment. Extensive changes were made in our Monroe, La., and Terre Haute and Hammond, Ind., plants. New buildings were constructed at Menands, N. Y. (to serve the Albany-Troy area), and Ft. Lauderdale and Pensacola, Fla. Delivery equipment at these last three locations was completely replaced with mechanically refrigerated delivery trucks. Similar equipment also modernized the delivery fleets at Hartford and New Haven, Conn.; Midland and Texarkana, Tex.; Pontiac, Mich.; Fresno, Calif.; Biloxi, Miss.; and Crestview, Fla. Twenty-truck units of the new type equipment were placed in service in several other cities. The program of fleet modernization will be continued in 1955.

We extended milk operations to several new territories by acquiring local businesses there. Acquisition of Sturtevant Dairy Products Company opened the Quad Cities market of Rock Island, Moline and East Moline, Ill., and Davenport, Iowa. Sani-Seal Dairies brought us into the Saginaw, Bay City and Midland, Mich., markets. We established our first branches in Arkansas by acquiring the Parker Mayflower Dairy Company of Little Rock and the Purity Ice Cream & Milk Company of Hot Springs. Two new markets in Mississippi were opened by acquiring the Purity Milk Company of Meridian and Lanes Creamery of Jackson.

Future of America



In the lobby of the U. S. Department of Commerce building in Washington, D. C., is a giant computer that Commerce employees call the "Pinball Machine." It clicks every eight seconds, and every time it clicks we add another potential Borden customer to the population of the United States. The machine has been clicking faster and faster.

In 1940, there were 132 million people in the United States. Today, there are over 160,000,000. Of the 37 million married couples now in the U. S., more than half have marched to the altar since 1940 (most of the recent brides have been in their teens). Families are getting bigger, too. Eleven thousand babies are born each day (adding a city the size of Syracuse each month). Compared with 1940, there are almost twice as many second and third children, two-thirds again as many fourth. Last year, population growth sprouted a new market as big as Chicago.

Yet, America's population growth is being outpaced by the rise in its standard of living. Each American is consuming 18% more milk and cream, 33% more eggs, 5% more meat, fish and poultry than he did before the war. Purchasing power is double what it was 15 years ago. Farm output per man-hour is half again as large. The number of jobs is up a third, yet machines now do 95% of the work.

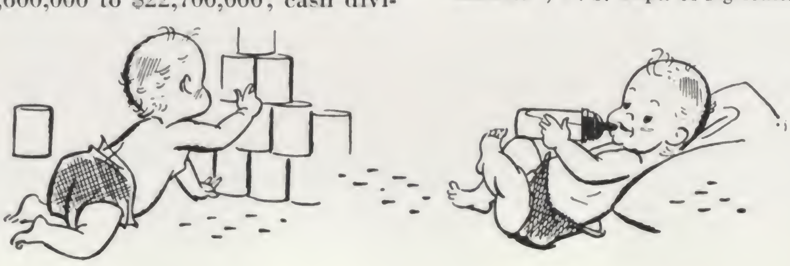
This great growth that has taken place in America is reflected in Borden's own experience over the past 15 years. In round figures, sales have gone from $217,000,000 to $777,000,000; income, from $7,600,000 to $22,700,000; cash dividends from $6,200,000 to $12,400,000. Our payroll increased from $50,000,000 to $145,000,000 (while employees went from 27,000 to 32,000).

What is in store 20 years hence? For the dairy industry, the prospects are good. By 1975, according to conservative estimates, U. S. population will be 209.5 million. If per-person consumption of principal dairy products remains at 1952 levels, Americans will then be consuming 146 billion pounds of milk a year. (U. S. farms produced about 124 billion pounds for all purposes, including animal feed and export, in 1954).

In the past two decades, Americans have been consuming less of the butterfat in milk produced, more of the nonfat solids. If the present trend continues, consumption of nonfat milk solids will reach about 55 pounds per person by 1975, compared with about 47 pounds in 1952. The point at which the demand for nonfat milk solids will exceed supply, however, is not in the foreseeable future — in each 100 pounds of milk produced at present in the United States, there are about four pounds of butterfat and nine pounds of other milk solids.

All this growth means an expanding market for the products Borden's makes. It means, too, a larger market for the produce of the nation's dairy farmers. It can herald an end to the problem of dairy surpluses — a time when the total production of dairy products will flow into homes and stores.

Sources: The Advertising Council booklet, "Future of America"; U. S. Dept. of Agriculture.



Quarter Century Club members E. F. Miller (left) and A. F. Hinck, oldest employees in point of service at national headquarters, point to dates they joined the Company 49 years ago. Membership is over 6,000.

EMPLOYEES Of the Company's 32,498 employees, over 5,000 have completed 25 years or more of service. Together with more than 1,300 retired employees having similar records they constitute the membership of the Borden Quarter Century Club. As the Club marked its tenth year, gold watches were presented to 63 members who completed 40 years of service in 1954 and to about 450 others who had completed similar service in past years.

Participation in our contributory group insurance programs is optional with employees. The group life program covered 18,350 employees for a total insurance of $89,657,600; claims totalling $535,339 were paid during the year. The group accident and health program covered 19,939 employees; claims amounting to $355,563 were paid.

SAFETY Lower frequencies in both employee injuries and vehicular accidents were indicated by the latest figures available, covering reports through the first nine months. Compared with the corresponding period of 1953, lost time injuries dropped from 19.4 to 17.5 per million man-hours worked. The vehicular accident rate decreased from 3.01 to 2.74 per 100,000 miles of travel. Credit for the improvement is due principally to employee cooperation in an active safety program, which has avoided much suffering and reduced the cost of accidents as well.

MANAGEMENT CHANGES William F. Leicester retired as Vice President of the Company and Chairman of the Chemical Division's Directing Board on Dec. 31 after 30 years with the Company. On March 1 Mr. Leicester had retired as President of the Chemical Division. He was succeeded in that position by Augustine R. Marusi, who joined the organization in 1939.

IN CONCLUSION I am grateful to the stockholders for their continued confidence in management and interest in the affairs of the Company, as evidenced by the many letters that have been received from them during the year. The loyal use and promotion of Borden products by shareholders has been a welcome contribution to our sales efforts.

Finally, I thank the employees and executives whose combined efforts and enthusiasm helped to make 1954 the best year in Borden history.

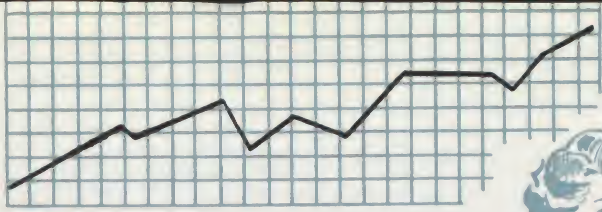
Activities of our principal operating divisions and our Canadian company are reported in the pages that follow, along with other matters of interest to the stockholders and employees. The financial statements and the certificate of the independent auditors are on pages 20-24.

Theodore G. Montague

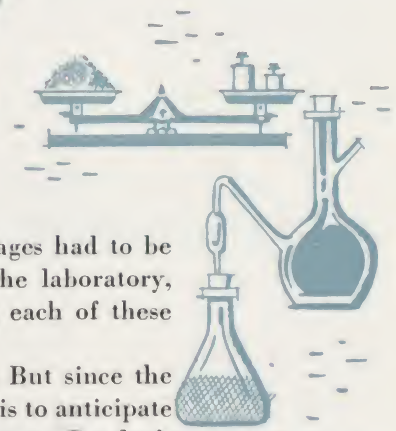
President

February 17, 1955

These employees from the New York headquarters are among the 300 members of "Elsie's Test Panel." Supplementing the work of outside groups, the panel taste-tests Borden products before marketing, checks products in new recipes and uses. Studies show that results are representative of national preferences.



Research



Scientific research is outgrowing the laboratory to the point where it is touching almost every phase of corporate life — from the development of a new or improved product to the study of advertising, market conditions, package design and consumer acceptance. It is making the word and practice of "guessing" obsolete, for it has been found that the more extensive the research, the smaller the risk of failure.

At Borden's, particularly, scientific research is becoming more and more an integral part of every new product or merchandising technique development. As before, it is still up to the scientist in the laboratory to produce new products, and up to the engineer to devise new methods. But now, research scientists investigate market conditions before major product experiments get underway. Consumer panels test a product before it is marketed. Researchers study package designs for consumer appeal and recognition.

They check our TV programs for audience response. And they test copy and artwork in newspaper and magazine advertisements for readership and content.

Research has undergone great changes in the lifetime of The Borden Company. Gail Borden worked alone developing his condensed milk. He designed most of his own machinery and equipment. He wrote his Company's first advertisement. Today, a staff of researchers, each a specialist in his field, keeps Borden's growing.

How research today reaches many phases of Borden's operations is shown by the planning behind our newest product, Instant Starlac.

Starlac in consumer packages appeared on the market in the early 'Forties, after research had uncovered the need for such a product. With almost four decades of experience in the dry milk field, Borden's was equipped to produce such a product. But several obstacles still lay ahead. Special equipment and machinery had to be made; production line facilities had to be set up; consumer-size packages had to be designed. Through research in the laboratory, at the plant, and in the market, each of these problems was solved.

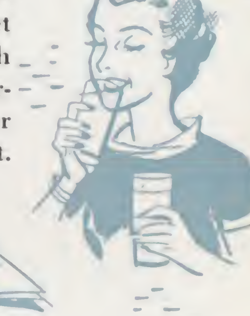
Consumers welcomed Starlac. But since the aim of any successful corporation is to anticipate the wants and needs of its customers, Borden's set out to improve the product. To enlarge the market, it would be desirable to make Starlac more convenient for the housewife to use. The goal: a free-flowing powder that, when added to water, would dissolve in a few seconds, and that would be equally suitable for drinking, baking and cooking. Laboratory and production staffs were given the assignment. A Task Committee was appointed.

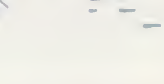
Its first move was to study available history on dry milk (much of it Borden's) and to review previous laboratory experiments step by step. The problem, at each stage, was to get a positive quality without a negative quality offsetting it—instant solubility without off-flavor; free-flowing without lumping. Control tests to assure these characteristics had to be established.

During development, consumer research got underway. Consumer test panels were set up, to compare samples of new Instant Starlac with old-style Starlac and with competitive products. The goal finally reached, Instant Starlac was presented to management and accepted. The project was turned over to engineering and production for necessary commercial installations.

Sales management, together with the Advertising Department and the advertising agency, next moved in to develop a comprehensive plan of advertising and promotion for Instant Starlac.

The complexities of modern business make the development and introduction of a new product costly. Borden's investment in broad research gives reasonable assurance that when a new Borden product reaches the market, the consumer will take it into her home and continue to use it.

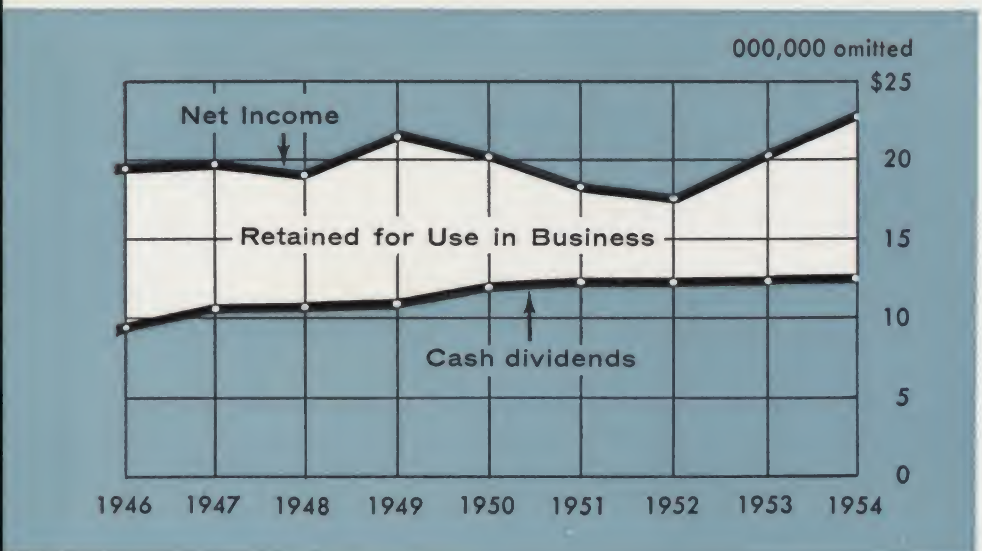


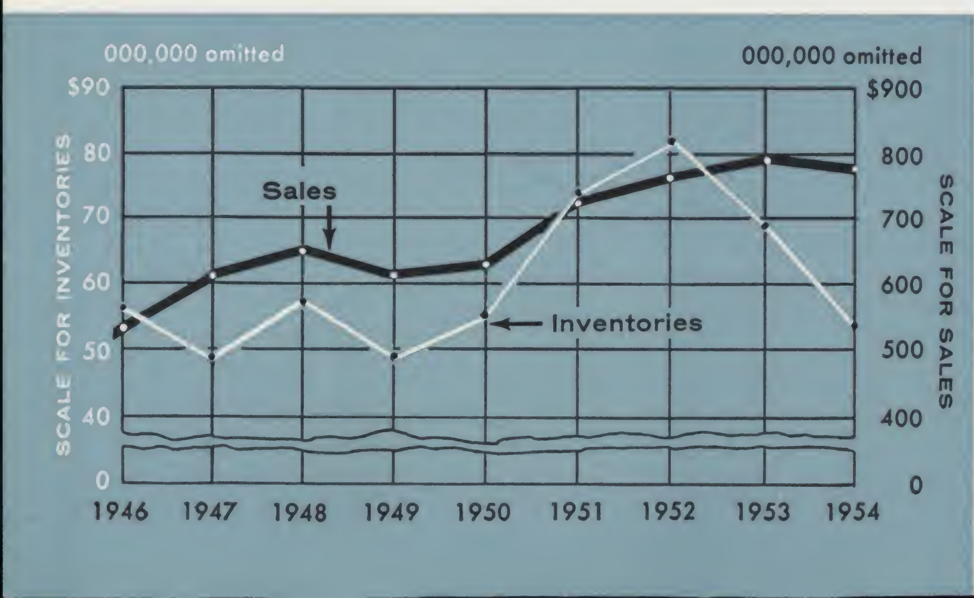


The Borden Company since World War II

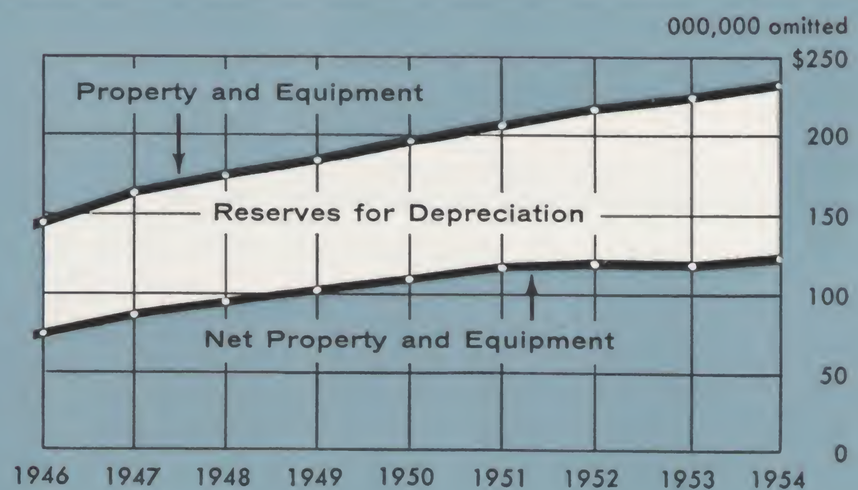
	1954
Sales	$776,838,791
Payrolls	$145,063,306
Taxes (U.S. & Canadian Fed. Income)	$ 23,428,263
Depreciation	$ 13,761,179
Cash Dividends	$ 12,439,939
Net Income	$ 22,724,336
Per Sales Dollar	2.93¢
Per Share	$4.82
Working Capital	$119,436,523
Current Ratio*	3.84:1
Inventories	$ 53,501,698
Property and Equipment	$233,937,180
Reserves for Depreciation	$111,285,644
Net Property and Equipment	$122,651,536
Borrowed Capital	$ 55,000,000
Stockholders' Equity	$194,021,424
Shares Outstanding	4,710,000
Cash Dividends per Share	$2.80
Number of Stockholders	49,430
Number of Employees	32,498

**Ratio of Current Assets to Current Liabilities*





1953	1952	1951	1950	1949	1948	1947	1946
$792,381,721	$768,019,612	$722,770,380	$631,114,120	$613,763,267	$649,592,375	$602,959,406	$542,998,805
$140,063,502	$134,784,228	$122,158,335	$113,004,008	$109,780,054	$106,131,433	$101,175,326	$ 89,000,822
$ 22,102,585	$ 15,742,410	$ 19,128,541	$ 15,731,165	$ 12,870,762	$ 10,638,021	$ 11,879,797	$ 13,842,314
$ 13,294,359	$ 12,301,608	$ 11,285,846	$ 10,366,594	$ 9,661,874	$ 8,512,816	$ 7,703,212	$ 6,791,453
$ 12,034,800	$ 12,027,145	$ 12,036,366	$ 12,019,910	$ 11,593,320	$ 10,944,885	$ 10,807,100	$ 9,508,900
$ 20,264,156	$ 17,667,137	$ 18,080,371	$ 20,147,073	$ 21,890,479	$ 19,179,427	$ 19,793,276	$ 19,581,006
2.56¢	2.30¢	2.50¢	3.19¢	3.57¢	2.95¢	3.28¢	3.61¢
$4.71	$4.11	$4.20	$4.69	$5.10	$4.46	$4.61	$4.64
$119,578,762	$115,921,287	$114,987,211	$101,355,105	$106,653,894	$105,918,817	$ 89,445,530	$ 84,558,487
3.76:1	3.89:1	3.86:1	3.73:1	4.01:1	4.28:1	3.74:1	3.43:1
$ 67,971,612	$ 81,878,083	$ 73,742,837	$ 54,906,173	$ 48,988,814	$ 57,636,783	$ 48,922,300	$ 57,641,793
$224,276,381	$219,487,155	$208,894,814	$196,471,088	$181,709,298	$174,020,197	$162,649,180	$144,943,870
$105,685,809	$101,724,036	$ 93,006,980	$ 86,900,462	$ 81,504,208	$ 77,436,818	$ 73,367,153	$ 69,621,314
$118,590,572	$117,763,119	$115,887,834	$109,570,626	$100,205,090	$ 96,583,379	$ 89,282,027	$ 75,322,556
$ 57,200,000	$ 58,750,000	$ 60,000,000	$ 45,800,000	$ 47,200,000	$ 48,600,000	$ 35,000,000	$ 25,000,000
$185,533,017	$177,012,551	$172,017,360	$166,269,312	$159,759,940	$150,349,937	$142,126,550	$132,000,087
4,300,000	4,295,000	4,300,000	4,300,000	4,291,000	4,300,000	4,292,000	4,217,000
$2.80	$2.80	$2.80	$2.80	$2.70	$2.55	$2.55	$2.25
50,605	51,324	51,479	51,121	52,386	51,788	50,445	49,121
32,465	32,564	32,475	31,545	31,166	31,483	32,399	31,475



Consolidated Balance Sheet The Borden

ASSETS

	December 31 1954	1953
CURRENT ASSETS:		
Cash	$ 45,496,996	$ 38,865,841
United States Government Securities	18,919,545	13,964,431
Receivables (Less Reserves—1954, $3,322,982; 1953, $3,271,322)	43,556,366	42,061,848
Inventories (Note 2):		
Finished Goods	$ 30,735,634	$ 37,689,911
Materials and Supplies	22,766,064	30,281,701
Total Inventories	$ 53,501,698	$ 67,971,612
Total Current Assets	$161,474,605	$162,863,732
INVESTMENTS AND OTHER ASSETS:		
Unconsolidated Subsidiaries (Foreign and Domestic)	$ 4,939,892	$ 4,800,132
United States and Canadian Government Securities on Deposit (Pursuant to Workmen's Compensation Laws, etc.)	1,764,730	1,718,141
Mortgages, Receivables, etc. (Note 5)	6,270,700	5,049,059
Total	$ 12,975,322	$ 11,567,332
Less Reserves	481,158	457,574
Net Investments and Other Assets	$ 12,494,164	$ 11,109,758
PROPERTY AND EQUIPMENT	$233,937,180	$224,276,381
Less Reserves for Depreciation	111,285,644	105,685,809
Net Property and Equipment	$122,651,536	$118,590,572
DEFERRED CHARGES	$ 4,445,795	$ 3,091,680
TRADE-MARKS, PATENTS AND GOOD-WILL	$ 1	$ 1
TOTAL	$301,066,101	$295,655,743

See page 23 for notes to financial statements.

Company and Consolidated Subsidiaries

LIABILITIES

	December 31 1954	December 31 1953
CURRENT LIABILITIES:		
Accounts Payable	$ 27,868,707	$ 29,961,407
Accrued Accounts:		
Taxes (after deducting Treasury Savings Notes equal to U. S. Federal Income Taxes—1954, $24,250,000; 1953, $22,300,000)	3,066,670	2,758,453
Other	11,102,705	10,565,110
Total Current Liabilities	$ 42,038,082	$ 43,284,970
THIRTY YEAR 2⅞% DEBENTURES DUE 1981 (Note 3)	$ 55,000,000	$ 57,200,000
RESERVES:		
Insurance	$ 7,357,895	$ 6,958,056
Other	2,648,700	2,679,700
Total Reserves	$ 10,006,595	$ 9,637,756
CAPITAL STOCK AND SURPLUS:		
Capital Stock—par value $15 per share — Authorized 8,000,000 shares Issued—1954, 4,848,758 shares; 1953, 4,417,958 shares	$ 72,731,370	$ 66,269,370
Capital Surplus (Note 4)	35,298,105	14,529,601
Earned Surplus (Earnings retained for use in the business)	91,701,344	108,557,347
Total	$199,730,819	$189,356,318
Less Treasury Stock—At Cost (Note 5) — (1954, 138,758 shares; 1953, 117,958 shares)	5,709,395	3,823,301
Capital Stock Outstanding— (1954, 4,710,000 shares; 1953, 4,300,000 shares) and Surplus	$194,021,424	$185,533,017
TOTAL	$301,066,101	$295,655,743

Consolidated Net Income & Earned Surplus The

	Year Ended December 31 1954	1953
NET SALES	$776,838,791	$792,381,721
OTHER INCOME (Includes Interest, Dividends and Royalties—1954, $1,434,921; 1953, $1,223,887)	2,026,996	2,840,496
TOTAL	$778,865,787	$795,222,217
LESS:		
Cost of Goods Sold	$671,486,255	$693,957,886
Selling, General and Administrative Expenses and Other Charges	59,572,760	57,165,665
Interest Expense	1,654,173	1,731,925
Provision for U. S. and Canadian Federal Income Taxes	23,428,263	22,102,585
TOTAL	$756,141,451	$774,958,061
NET INCOME FOR THE YEAR	$ 22,724,336	$ 20,264,156
EARNED SURPLUS AT BEGINNING OF YEAR	108,557,347	100,327,991
TOTAL	$131,281,683	$120,592,147
DEDUCT DIVIDENDS PAID:		
Cash ($2.80 a share in 1954 and 1953)	$ 12,439,939	$ 12,034,800
Stock (Note 4)	27,140,400	
TOTAL	$ 39,580,339	$ 12,034,800
EARNED SURPLUS AT END OF YEAR *(Earnings retained for use in the business)*	$ 91,701,344	$108,557,347

See page 23 for notes to financial statements.

Borden Company and Consolidated Subsidiaries

Notes to Financial Statements

(1) BASIS OF CONSOLIDATION: The financial statements include all Canadian operating subsidiaries and all domestic subsidiaries except one whose operations are not integrated with those of the Company. In consolidating the accounts of Canadian operating subsidiaries, assets, liabilities and net income were converted at parity of exchange.

The Company's equity (approximately $3,450,000 for 1954, and $1,650,000 for 1953) in the net income of unconsolidated foreign and domestic subsidiaries is included in consolidated net income only to the extent of dividends received (in 1954 — none; in 1953 — $36,137). The Company's equity in the net tangible assets of these unconsolidated subsidiaries at December 31, 1954, as shown by their books, is approximately $10,300,000 more than its investments in these subsidiaries.

The consideration paid for businesses acquired during 1953 and 1954 in excess of the values assigned to net tangible assets, $1,706,483, is included with Deferred Charges.

(2) INVENTORIES: In valuing inventories and in determining the cost of goods sold, average costs (reduced to market if lower) were used, except as to certain products for which the last-in, first-out (Lifo) method was used. For the years from 1939 to 1949, inclusive, the Lifo method was so used for accounting but not for income tax purposes. As of January 1, 1950, the Lifo method was adopted for income tax purposes for all of the products previously on the book Lifo basis plus certain other products. This necessitated restatement of inventory values as of December 31, 1949 on the Income Tax Lifo basis, resulting in Income Tax Lifo values which were $5,469,633 more than the book Lifo values previously adopted. In the Consolidated Balance Sheet at December 31, 1954 and 1953, this latter amount has been deducted from the inventories, including those on the Income Tax Lifo basis, and can be utilized, for accounting but not for income tax purposes, if market prices of products on the Income Tax Lifo basis decline below Income Tax Lifo values.

(3) DEBENTURES: The Company shall pay into a sinking fund a sum sufficient to redeem on March 1, 1956, and on each March 1 thereafter, to and including March 1, 1980, $1,250,000 principal amount of Debentures with the option to increase any payment by an amount not exceeding $1,250,000. The sinking fund obligation due on March 1, 1955 was satisfied prior to December 31, 1954 by delivery to and cancellation by the trustee of Debentures of a principal amount of $1,250,000. The Company also has purchased and holds in its treasury Debentures of a principal amount of $1,250,000 which are not shown as outstanding. Discount and expense of this issue are being amortized over the period during which the Debentures are outstanding.

(4) CAPITAL SURPLUS: 430,800 additional shares of the Company's Capital Stock were issued to stockholders of record September 10, 1954, on the basis of 1 share for each 10 shares of the Company's Capital Stock then outstanding. For each share so issued there was charged to Earned Surplus the sum of $63, of which amount $15 (representing the par value) was credited to Capital Stock and $48 was credited to Capital Surplus. The figure of $63 approximates the market price per share of the Capital Stock of the Company as of August 31, 1954 (the date of declaration of the dividend) adjusted to reflect the issuance of this stock dividend. The charge to Earned Surplus was $27,140,400 and the credits to Capital Stock and Capital Surplus were $6,462,000 and $20,678,400, respectively. In addition, $90,104 was credited to Capital Surplus during the year representing proceeds from disposal of properties previously written off against this account.

(5) STOCK OPTIONS: Capital stock of the Company held in the treasury at December 31, 1954 includes 7,000 shares reserved under the Officers and Employees Stock Option Plan as approved by the stockholders. These shares relate to options at $36.25 a share granted on March 31, 1945 and expiring on March 30, 1955. The option price was $1.00 more than the last sale on the New York Stock Exchange preceding the date of the granting of the options. There was no effect on income with respect to options exercised to the extent of 2,000 shares at $36.25 and 21,000 shares at $45.75 during the year. At December 31, 1954, balances receivable for stock purchased under the Plan aggregate $798,338, which amount is included with Mortgages, Receivables, etc.

(6) DEPRECIATION AND RENTALS: Provision for depreciation charged to operations was $13,761,179 for 1954 and $13,294,359 for 1953. Rentals amounted to approximately $4,480,000 for 1954, of which $2,200,000 was related to long-term leases.

(7) CONTINGENCIES: The Company was guarantor of bank loans to foreign affiliated companies in amounts aggregating approximately $2,100,000 at December 31, 1954. See comment on page 5 of this Report for reference to litigation.

Accountants' Certificate

HASKINS & SELLS
CERTIFIED PUBLIC ACCOUNTANTS

67 BROAD STREET
NEW YORK 4

February 17, 1955.

THE BORDEN COMPANY:

We have examined the consolidated balance sheet of THE BORDEN COMPANY and Consolidated Subsidiaries as of December 31, 1954 and the related statement of consolidated net income and earned surplus for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying consolidated balance sheet and statement of consolidated net income and earned surplus present fairly the financial position of the companies at December 31, 1954 and the results of their operations for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Haskins & Sells

This New England clam chowder uses two cans of our evaporated milk and two cups of our homogenized milk. It will serve ten.

Two packages of our Bake'n Eat Biscuits make the base for Southern-style mixed vegetable main dish.

The Borden Company, 350 Madison Avenue, New York 17, N. Y.

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